

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 PA-02 /105 W
-----053201 260022Z /66

R 252354Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7203
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL WINNIPEG
AMCONSUL VANCOUVER

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: EFIN, ECON, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING APRIL 21.

1. SUMMARY. EXCHANGE MARKET SETTLED DOWN SOMEWHAT DURING WEEK. CANADIAN DOLLAR ROSE ON AVERAGE AGAINST U.S. DOLLAR. CONFERENCE BOARD HAS LOWERED ITS FORECAST FOR GROWTH OF REAL DOMESTIC PRODUCT (RDP) IN 1978. RDP, NEW ORDERS, SHIPMENTS, UNFILLED ORDERS AND CONSUMER CREDIT ROSE IN FEBRUARY. CONSTRUCTION ACTIVITY DOWN IN FIRST QUARTER. SHORT TERM INTEREST RATES CONTINUED TO RISE IN WEEK. END SUMMARY.

2. EXCHANGE RATE. EXCHANGE MARKETS SETTLED DOWN SOMEWHAT DURING WEEK, AS CANADIAN DOLLAR ROSE ON AVERAGE FROM PRE-
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VIOUS WEEK (FROM .8725 TO .8735 U.S. CENTS) AGAINST U.S. DOLLAR. GREATER CAUTION AMONG SPECULATORS AND INCREASED COMMERCIAL DEMAND CITED AS FACTORS INFLUENCING DOLLAR'S RISE. DESPITE CALMER STATE OF MARKETS, FLUCTUATIONS IN EXCHANGE RATE REMAINED WIDE, AS DOLLAR TOUCHED LOW OF .8700 AND HIGH OF .8760, PROBABLY REFLECTING RELATIVE ABSENCE OF OFFICIAL INTERVENTION. REDUCED LEVELS OF INTER-

VENTION AND RESULTANT WIDER AMPLITUDE OF FLUCTUATIONS MAY HAVE REDUCED SPECULATION BY INCREASING RISKS. ON EUROPEAN MARKETS, CANADIAN DOLLAR BENEFITED FROM RISE IN U.S. DOLLAR FOLLOWING USG DECISION TO AUCTION OFFICIAL HOLDINGS OF GOLD.

3. CONFERENCE BOARD HAS REVISED DOWNWARD ITS FORECAST OF GROWTH OF REAL DOMESTIC PRODUCT (RDP) IN 1978 TO 3.9 PERCENT FROM 4.5 PERCENT PROJECTED IN DECEMBER. DOWNWARD REVISION OF RDP FORECAST IS IN LINE WITH BOARD'S LOWERING OF ITS GNP FORECAST FROM 5 PERCENT TO 4.5 PERCENT. RDP GROWTH EXPECTED TO RANGE FROM HIGH OF 5 PERCENT IN ALBERTA TO LOW OF 0.8 PERCENT IN SASKATCHEWAN. GROWTH IN ONTARIO AND QUEBEC FORECAST AT 4.2 PERCENT AND 3.5 PERCENT RESPECTIVELY. UNEMPLOYMENT RATE PROJECTED TO RISE TO 8.5 PERCENT FROM 1977 LEVEL OF 8.1 PERCENT.

4. ECONOMIC INDICATORS:

-- REAL DOMESTIC PRODUCT(SA) ROSE 0.9 PERCENT TO 129.8 (1971=100) IN FEBRUARY, FOLLOWING DECLINE IN JANUARY (AT 128.7, REVISED) AND NO GROWTH IN DECEMBER (AT 129.0, THE SAME AS NOVEMBER). INDEX STANDS 2.3 PERCENT ABOVE FEBRUARY, 1977 LEVEL. MANUFACTURING OUTPUT ADVANCED 0.8 PERCENT IN MONTH WITH MOST OF GAIN ATTRIBUTABLE TO EXPANSION OF NON-DURABLE PRODUCTION. PRODUCTION IN MINES, QUARRIES UNCLASSIFIED

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AND OIL WELLS ROSE 3 PERCENT, WHILE UTILITIES OUTPUT WAS DOWN BY 1 PERCENT.

-- CONSUMER CREDIT OUTSTANDING (NSA) AT END OF FEBRUARY WAS CDOLS 24.9 BILLION, AN INCREASE OF 11.4 PERCENT FROM FEBRUARY 1977. IN THREE MONTHS ENDING FEBRUARY, VALUE OF CONSUMER CREDIT OUTSTANDING INCREASED AT AVERAGE ANNUAL RATE (NSA) ONLY 1.1 PERCENT OVER PREVIOUS THREE MONTHS, COMPARED WITH 3.7 PERCENT AVERAGE ANNUAL RATE OF INCREASE IN THREE MONTHS ENDING JANUARY.

-- NEW ORDERS (SA) ROSE IN FEBRUARY 1 PERCENT FROM JANUARY LEVEL TO CDOLS 9.96 BILLION. NON-DURABLE ORDERS ROSE BY 3.5 PERCENT WHILE ORDERS FOR DURABLES DECLINED BY 1.3 PERCENT. SHIPMENTS WERE UP 1.5 PERCENT TO CDOLS 9.8 BILLION IN MONTH AND UNFILLED ORDERS TOTALLED CDOLS 11.03 BILLION, A 1.4 PERCENT INCREASE FROM JANUARY. AT 1.92, RATIO OF OWNED INVENTORIES TO SHIPMENTS WAS CONSTANT AT JANUARY LEVEL.

COMMENT: SLOW GROWTH OF CONSUMER CREDIT AND OF DURABLES PRODUCTION AND DECLINE IN NEW ORDERS OF DURABLES COULD

INDICATE THAT SAVINGS RATIO IN FIRST QUARTER MAY REMAIN
AT HIGH LEVEL ATTAINED IN FOURTH QUARTER OF 1977. END COMMENT

-- PRIVATE SURVEY SHOWS 8 PERCENT DECLINE BETWEEN FOURTH
QUARTER 1977 AND FIRST QUARTER THIS YEAR IN VALUE OF NEW
BUILDING STARTS. FOLLOWING SHARP RISE IN STARTS IN JANU-
ARY (19 PERCENT) AND FEBRUARY (9 PERCENT), MARCH WITNESSED
33 PERCENT DECLINE, BRINGING AVERAGE VALUE OF STARTS FOR
FIRST QUARTER TO CDOLS 2.9 BILLION.

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5. CAPITAL MARKETS. SHORT TERM INTEREST RATES CONTINUED
TO RISE IN WEEK. INTEREST RATE ON THREE MONTH TREASURY
BILLS WAS 8.24 PERCENT, UP FROM 8.18 PERCENT PREVIOUS
WEEK. SOME OBSERVERS HAVE INTERPRETED RELATIVE ABSENCE
OF BANK OF CANADA (BOC) INTERVENTION IN EXCHANGE MARKET AS
EVIDENCE THAT FOCUS OF GOC POLICY HAS SHIFTED AWAY FROM
EXCHANGE RATE AND BACK TO CONTROLLING M1 GROWTH. IT IS
MORE LIKELY, HOWEVER, THAT MODEST OFFICIAL INTERVENTION
REFLECTS CHANGE IN INTERVENTION TACTICS RATHER THAN SHIFT
IN POLICY (SEE OTTAWA 1990 AND PARA 2, ABOVE).

6. FOREIGN BORROWING. PROVINCE OF QUEBEC'S 150 MILLION
DM ISSUE BEING SOLD AT SUBSTANTIAL DISCOUNT IN FRG CAPITAL
MARKET. ISSUE NOW PRICED AT EQUIVALENT OF CDOLS 98.75

TO YIELD 6.9 PERCENT. MARKET OBSERVERS HAVE NOTED, HOW-
EVER, THAT DM MARKET WAS SOFT AND THAT QUEBEC ISSUE SOLD
MORE READILY THAN OTHER ISSUES OF LESSER QUALITY. ENDERS
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